

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Weinheim, 03/03/2014

Dear Mr Hoogervorst,

ED/2013/9 – IFRS FOR SMEs: PROPOSED AMENDMENTS TO THE IFRS FOR SMEs

We appreciate the opportunity to comment on the IASB's Exposure Draft ED/2013/9 "Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities".

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge part of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters and other accounting-related institutions like the International Auditing and Assurance Standards Board (IAASB). We are in close dialogue with the German standard setter ASCG and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

The IFRS for SMEs is currently not used by SMEs in Germany. Yet, full IFRS are applied by a large part of our member companies voluntarily. Moreover, some of our members are actually considering a voluntary first time application of full IFRS in their consolidated financial statements. As most of our members are operating globally, these companies often have subsidiaries in countries where the IFRS for SMEs is adopted on a national level. However, the unpredictable current developments and the huge number of unsettled questions on the conceptual level (cf. the leasing or the

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revenue recognition project) have proven to be the major obstacle to the application of full IFRS throughout the last months. From our point of view, those developments should not be carried into the IFRS for SMEs. Feasible and cost-beneficial guidance on whatever accounting issue regardless of an entity's legal form or industry is an inevitable requirement to further increase the application of the IFRS for SMEs worldwide. We therefore welcome the IASB's principles for dealing with new and revised IFRS as set out in par. BC29 of the ED. However, we believe the IASB should await the results of the post-implementation reviews of new or revised IFRS before assessing the suitability of the changes for SMEs and users of their (consolidated) financial statements.

Moreover, we would like to note that there are grave differences between what kinds of entities are in the general scope of the IFRS for SMEs. For that reason we believe that there should be size-dependent reliefs for some of the entities within the scope of and applying the IFRS for SMEs. The IASB or – if necessary – national regulators resp. standard setters should define standardized size categories, e.g. for small or medium sized entities, that could then lead to easements applying the SME standard. To ensure maximum comparability, we think that there should only be limited reliefs – if any – applying to recognition and measurement concepts. However, there should be wide-ranging reliefs with regard to notes disclosures.

Please refer to the appendix to this letter for our detailed answers to the questions asked in ED/2013/9.

Should you have any further questions, please do not hesitate to contact us.

Kind regards,

Vereinigung zur Mitwirkung an der Entwicklung des
Bilanzrechts für Familiengesellschaften e.V. (VMEBF)



Prof. Dr. Dieter Truxius



Peter Krieg



Prof. Dr. Norbert Winkeljohann

**Appendix:
VMEBF comments on the IASB's additional questions****Question 1:**

The IASB has received feedback that the meaning of 'fiduciary capacity' in the definition of 'public accountability' (see par. 1.3(b)) is unclear as it is a term with different implications across jurisdictions. However, respondents generally did not suggest alternative ways of describing public accountability or indicate what guidance would help to clarify the meaning of 'fiduciary capacity'. Based on the outreach activities to date, the IASB has determined that the use of this term does not appear to create significant uncertainty or diversity in practice.

- (a) Are you aware of circumstances where the use of the term 'fiduciary capacity' has created uncertainty or diversity in practice? If so, please provide details.***
- (b) Does the term 'fiduciary capacity' need to be clarified or replaced? Why or why not? If you think it needs to be clarified or replaced, what changes do you propose and why?***

General remarks regarding the scope of the IFRS for SMEs:

The overall task of the IASB is to develop standards for a broad range of entities. Therefore, the IASB defines the kinds of entities its standards – full IFRS as well as the IFRS for SMEs – are regularly developed for. However, the decision of what kinds of entities have to apply full IFRS or the IFRS for SMEs in their (consolidated) financial statements is not in the scope of the IASB. For example, in Europe national/supranational authorities and regulators determine the groups of entities having to apply full IFRS in their consolidated financial statements.

The IASB failed in its former efforts to establish full IFRS as a general purpose set of standards for all kinds of entities irrespective of their capital maintenance or their legal form. IFRS for SMEs therefore constitute a means to overcome the deficiencies of full IFRS with regard to usability, complexity and – very often – applicability to allow entities not using the capital markets or without sufficient resources for full IFRS to apply some kind of "IFRS light".

With this in mind, we consider the IFRS for SMEs to be developed to fit the needs of preparers and users of entities without public accountability. However, the IFRS for SMEs lacks the flexibility to be suitable for the wide range of entities this implies, from the small 10 mill. € business to the multi-billion family owned conglomerate. For that reason we believe that there should be size-dependent reliefs for some of the entities within the scope of and applying the IFRS for SMEs. The IASB or – if necessary – national regulators resp. standard setters should define standardized size categories, e.g. for small or medium sized entities, that could then lead to easements

applying the SME standard. To ensure maximum comparability and harmonization, we think that there should only be limited reliefs – if any – applying to recognition and measurement concepts. However, there should be wide-ranging reliefs with regard to notes disclosures.

Specific remarks regarding the use of the term “fiduciary capacity”:

With regard to the term “fiduciary capacity” we believe that there is no need for further clarification. The IASB already states that entities holding asset in a fiduciary capacity for reasons incidental to their primary business such as e.g. travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit, and sellers that receive payment in advance of delivery of the goods or services such as utility companies are not necessarily publicly accountable (cf. par. 1.4 of the IFRS for SMEs).

Question 2:

The proposal to align the main principles of Sec. 29 Income Tax with IAS 12 Income Taxes for the recognition and measurement of deferred tax (see amendment no. 44 in the list of proposed amendments at the beginning of this ED) is the most significant change being proposed to the IFRS for SMEs. When the IFRS for SMEs was issued in 2009, Sec. 29 was based on the IASB’s ED Income Tax (the ‘2009 ED’), which was issued in March 2009. However, the 2009 ED was never finalised by the IASB. Consequently, the IASB has concluded that it is better to base Sec. 29 on IAS 12. The IASB proposes to align the recognition and measurement principles in Sec. 29 with IAS 12 (see par. BC55-BC60) whilst retaining some of the presentation and disclosure simplifications from the original version of Sec. 29.

The IASB continues to support its reasoning for not permitting the ‘taxes payable’ approach as set out in paragraph BC145 of the IFRS for SMEs that was issued in 2009. However, while the IASB believes that the principle of recognising deferred tax assets and liabilities is appropriate for SMEs, it would like feedback on whether Sec. 29 (revised) can currently be applied (operationalised) by SMEs, or whether further implications or guidance should be considered. A ‘clean’ version of Sec. 29 (revised) with the proposed changes to Sec. 29 already incorporated is set out in the appendix at the end of this ED. Are the proposed changes to Sec. 29 appropriate for SMEs and users of their financial statements? If not, what modifications, for example further simplifications or additional guidance, do you propose and why?

From our point of view, deferred income taxes should not be recognised within the statement of financial position of an SME at all. Especially rather small SMEs without considerable resources or know-how in their accounting departments would often have to hire consultants to provide suitable information on deferred taxes. However, it might be appropriate to require notes disclosures on specific issues regarding deferred taxes. Another possibility could be to define standardized size categories or make national regulators resp. standard setters do so (cf. our cover letter and our

answer to question 1), e.g. for small or medium-sized entities, that could then lead to the recognition of deferred taxes (applying a simplified concept, e.g. a modified timing differences method) for large entities or groups applying the SME standard. Notwithstanding the above, the IFRS for SMEs should not require deferred taxes on outside basis differences or disclosure of reconciliations.

If our above-mentioned suggestions should not be followed, we would prefer the conformation of sec. 29 of the IFRS for SMEs to IAS 12 for consistency (cf. our comment letter on ED/2009/2) and comparability reasons. With regard to the drafted wording of sec. 29, we welcome the IASB keeping the section lean and compact. The section as drafted in the ED focuses on conceptual issues without adding too much detail taken from IAS 12. This should also support the IASB in establishing a stable platform that is (mostly) independent of minor changes to full IFRS.

Question 3:

The IASB proposes to make a number of other amendments to the IFRS for SMEs. The proposed amendments are listed and numbered 1-43 and 45-57 in the list of proposed amendments. Most of those amendments are minor and/or clarify existing requirements.

(a) Are there any amendments that you do not agree with or have comments on?

(b) Do any of the amendments require additional guidance or disclosure requirements to be added to the IFRS for SMEs? If so, which ones and what are your suggestions?

If you disagree with an amendment please state any alternatives you propose and give your reasoning.

Although we see great merit in ensuring maximum comparability in recognition and measurement concepts between full IFRS and the IFRS for SMEs, we agree with most of the proposed amendments, even if they might lead to (limited) divergence between both accounting regimes. We acknowledge the idea – as pointed out in the 2012 Request for Information – of providing (possible) reliefs for especially small SMEs by granting certain voting rights (e.g. regarding the capitalisation of development or borrowing costs) that are able to reduce accounting complexity. However, there are some special issues we would like to comment on.

Sec. 2: Undue cost or effort

We welcome the IASB trying to provide more guidance on what is meant by “undue cost or effort”. However, the proposed addition to sec. 2 does not really define the term and distinguish it from other terms like “impractical” or “materiality”. Moreover, we believe that it will be rather difficult for preparers of SME financial statements to assess whether or how the economic decisions of the expected users of the financial statements could be affected by the availability of some specific information (par. 2.14B of ED/2013/9). We would therefore propose rephrasing the amendment.

Although we principally welcome the IASB ascribing a certain importance to the balance between cost and benefit, we read par. 2.14A-C of ED/2013/9 in a way prohibiting the use of the undue cost or effort exemption when assessing issues different from those mentioned in the ED (e.g. in the context of fair value measurement). We therefore propose the IASB generalising the undue cost or effort exemption.

Sec. 18: Useful life of goodwill or other intangible assets

We believe that if an entity is not able to reliably estimate the useful life of goodwill or other intangible assets, it should have to apply the default useful life as defined in par. 18.20 of the IFRS for SMEs. It seems to be inconsistent that management on the one hand should not be able to reliably estimate a useful life for an intangible asset but on the other hand should be able to justify a useful life other than the default value (ten years). Therefore, we do not agree with the proposed amendment.

Sec. 22: Classification of an instrument as liability or equity

We explicitly agree with the insertion of par. 22.3A of ED/2013/9. As already pointed out in several of our comment letters on IFRS issues, we believe that the economic substance of a transaction should always outweigh its legal form and should therefore constitute the basis for financial reporting. However, the second sentence of par. 22.3A of the ED again gives priority to the legal form of the financial instrument and leads over to the exception as set out in par. 22.4. This seems to be self-contradictory. We would therefore propose focussing on the economic substance as a guiding principle when distinguishing between liabilities and equity.

As the majority of our member companies is legally organised in the form of partnerships, it would be essential to us (if the IFRS for SME were applied in Germany) to account for our owner's interests according to their economic substance i.e. to retain the classification of our puttable instruments as equity.

Question 4:

In June 2012 the IASB issued a Request for Information (RfI) seeking public comment on whether there is a need to make any amendments to the IFRS for SMEs (see par. BC2-BC15). The RfI noted a number of specific issues that had been previously identified and asked respondents whether the issues warranted changes to the IFRS for SMEs. Additionally, the RfI asked respondents to identify any additional issues that needed to be addressed during the review process. Any issues so identified were discussed by the IASB during its deliberations. Do respondents have any further issues that are not addressed by the 57 amendments in the list of proposed amendments that they think the IASB should consider during this comprehensive review of the IFRS for SMEs? Please state these issues, if any, and give your reasoning.

The relation between full IFRS and IFRS for SMEs

Although the IFRS for SMEs is currently not used by SMEs in Germany, the voluntary application of full IFRS is widely spread among our member companies and some of our members are currently considering a voluntary first time application of full IFRS in their consolidated financial statements. Moreover, these companies often have subsidiaries in countries where the IFRS for SMEs is adopted on a national level. However, the unpredictable current developments and the huge number of unsettled questions on the conceptual level (cf. the leasing or the revenue recognition project) have proven to be the major obstacle to the application of full IFRS throughout the last months.

From our perspective, those developments should not be carried into the IFRS for SMEs automatically. Profound and principles-based guidance on whatever accounting issue regardless of an entity's legal form or industry is an inevitable requirement to further increase the application of the IFRS for SMEs worldwide. We therefore welcome the IASB's principles for dealing with new and revised IFRS as set out in par. BC29 of the ED. However, we believe the IASB should await the results of the post-implementation reviews of new or revised IFRS before assessing the suitability of the changes for SMEs and users of their financial statements. Perhaps the IASB should even think about developing rules being able to govern the relationship between full IFRS and IFRS for SMEs on a standardised basis in order to avoid a case-by-case decision on adjustments to the IFRS for SMEs.

The "consolidation package" (IFRS 10-12)

We believe that implementing a profound and principles-based approach concerning consolidation matters regardless of an entity's legal form or industry is an inevitable requirement to further increase the acceptability of the IFRS for SMEs worldwide. Moreover, we think that in principle recognition and measurement concepts underlying full IFRS and the SME standard should be kept rather similar to ensure consistency and comparability. We would thus suggest considering the requirements of the "consolidation package" in the IFRS for SMEs. However, the guidance given in IFRS 10 and related standards such as IFRS 12 has to be modified to reflect the needs of preparers of financial statements in an SME environment. This is especially true for notes disclosures. As pointed out above, the IASB should await the results of the post-implementation review of IFRS 10-12 before assessing the suitability of the changes for SMEs and users of their financial statements.

Fair value measurement

We would like to point out that in principle the differences between full IFRS and the IFRS for SMEs should be minimised with regard to recognition and measurement issues. However, we agree with the IASB not (yet) adopting the principles of IFRS 13 in the IFRS for SMEs. Although comparability reasons would be indicative for an

adoption, we strongly disagree with the application of the guidance especially as related to non-financial items. The exit price approach can only lead to decision-useful information for a limited number of transactions (cf. our comment letter on ED/2009/5). We would propose the IASB to develop an appropriate fair value concept for SMEs and define the fair value notion in a more sophisticated way. As a consistent fair value measurement concept should apply to all kinds of assets, it should be moved into a separate section.

Size-dependent reliefs with regard to notes disclosures

As already pointed out in our answer to question 1, we consider the IFRS for SMEs to be developed to fit the needs of preparers and users of entities without public accountability. However, the IFRS for SMEs lacks the flexibility to be suitable for the wide range of entities this implies. For that reason we believe that there should be size-dependent reliefs for some of the entities within the scope of and applying the IFRS for SMEs. The IASB or national regulators resp. standard setters should define standardized size categories, e.g. for small or medium sized entities, that could then lead to easements applying the SME standard. To ensure maximum comparability and harmonization, we think that there should only be limited reliefs – if any – applying to recognition and measurement concepts. However, there should be wide-ranging reliefs with regard to notes disclosures.

Question 5:

The IASB does not expect retrospective application of any of the proposed amendments to be significantly burdensome for SMEs and has therefore proposed that the amendments to the IFRS for SMEs in Sec. 2-34 are applied retrospectively. Do you agree with the proposed transition provisions for the amendments to the IFRS for SMEs? Why or why not? If not, what alternative do you propose?

Although we understand that retrospective application of the proposed amendments would enhance comparability, we are not able to foresee whether especially the changes regarding deferred tax accounting will indeed not be significantly burdensome. We therefore tend not to agree with the retrospective application of the proposed amendments and propose prospective application of at least the amendments regarding deferred tax accounting.

Question 6:

The IASB does not think that any of the proposed amendments to the IFRS for SMEs will result in significant changes in practice for SMEs or have a significant impact on their financial statements. It has therefore proposed that the effective date of the amendments to the IFRS for SMEs should be one year after the final amendments are issued. The IASB also proposes that early adoption of the amendments should be permitted. Do you agree with the proposed

effective date and the proposal to permit early adoption? Why or why not? If not, what alternative do you propose?

We agree with the effective date of the proposed amendments being at the beginning of the first annual reporting period starting one year after the final amendments are issued. We also agree with the permission of early adoption.

Question 7:

When the IFRS for SMEs was issued in 2009 the IASB stated that after the initial comprehensive review, the IASB expects to propose amendments to the IFRS for SMEs by publishing an omnibus Exposure Draft approximately once every three years. The IASB further stated that it intended this three-year cycle to be a tentative plan, not a firm commitment. It also noted that, on occasion, it may identify a matter for which an amendment to the IFRS for SMEs may need to be considered earlier than in the normal three-year cycle; for example to address an urgent issue. During the comprehensive review, the IASB has received feedback that amendments to the IFRS for SMEs once every three years (three-year cycle) may be too frequent and that a five-year cycle, with the ability for an urgent issue to be addressed earlier, may be more appropriate. Do you agree with the current tentative three-year cycle for maintaining the IFRS for SMEs, with the possibility for urgent issues to be addressed more frequently? Why or why not? If not, how should this process be modified?

We believe that a five-year cycle, with the ability for an urgent issue to be addressed earlier, would be more appropriate. This is especially due to the fact that particularly rather small SMEs do not have considerable resources or know-how in their accounting departments enabling them to cope with frequent changes to financial reporting standards. Notwithstanding those regular changes, the IASB has to be able to address urgent issues earlier than every five years. Therefore, some kind of committee or panel should be implemented to judge whether an issue is really that urgent and would justify a (very rare) deviation from the five-year cycle.

As already mentioned above, we welcome the IASB's principles for dealing with new and revised IFRS. Nevertheless, we believe the IASB should await the results of the post-implementation reviews of new or revised IFRS before assessing the suitability of the changes for SMEs and users of their financial statements.

Question 8:

Do you have any other comments on the proposals?

We believe that current developments should not be carried into the IFRS for SMEs automatically. However, the IASB should carefully evaluate and assess the possible implications of its ongoing full IFRS-projects like the review of the conceptual framework, lease accounting or revenue recognition for the IFRS for SMEs.